

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

0 2 - 0 2 0

2. STATE:

MA

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACT (MEDICAID)TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

October 1, 2002

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

42 CFR 430.250 et seq.

7. FEDERAL BUDGET IMPACT:

a. FFY 2003 \$ 108,495

b. FFY 2004 \$ 115,321

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-A(2b), pp. 1 and 4-5

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

Same

10. SUBJECT OF AMENDMENT:

Non-State Owned Psychiatric Hospital Payment Methods

11. GOVERNOR'S REVIEW (Check One):

☐ GOVERNOR'S OFFICE REPORTED NO COMMENT☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL☒ OTHER, AS SPECIFIED:

Not required under 42 CFR 430.12(b)(2)(c)

12. SIGNATURE OF STATE AGENCY OFFICIAL:



13. TYPED NAME:

Wendy E. Warring

14. TITLE:

Commissioner

15. DATE SUBMITTED:

16. RETURN TO:

Laura Watson
State Plan Coordinator
Division of Medical Assistance
Boston, MA 02111

17. DATE RECEIVED:

12/11/02

19. EFFECTIVE DATE OF APPROVED MATERIAL:


10/1/02

21. TYPED NAME:

CHARLENE BROWN

23. REMARKS:

20. SIGNATURE OF REGIONAL OFFICIAL:


Regional Director, CMSO

State Plan under Title XIX of the Social Security Act
State: Massachusetts
Institutional Reimbursement

**Methods Used to Determine Rates of Payment
for Non-State-Owned Psychiatric Hospital Services**

I. General Description of Payment Methodology

The following sections describe the methods and standards utilized by the Division of Medical Assistance (Division) to establish rates of payment by contract for services rendered by Non-State-Owned Psychiatric Hospitals and Substance Abuse Treatment Hospitals to patients entitled to medical assistance under M.G.L. c. 118E, §1 *et seq.* The rates described herein are effective October 1, 2002. These rates of payment do not apply to Recipients who are enrolled in the Division's Behavioral Health Plan.

- (1) The Division has established a comprehensive statewide inpatient *per diem* rate for all participating psychiatric hospitals covering both routine and ancillary services provided to inpatients. The Division derived the statewide inpatient *per diem* rate by generating a base period rate for the period RY1996 through RY1998 (up to May 1998). The base period rate was inflation-adjusted to RY1998 dollars and then updated by the appropriate Medicaid acute inpatient update factors (SPAD inflation factors) to generate the RY2003 rate.
- (2) An all-inclusive Administrative Day *Per Diem* Rate (AD Rate) is established for psychiatric hospitals for each Administrative Day. The AD Rate is based on the Medicaid acute inpatient administrative day rate and is comprised of a base *per diem* payment and an ancillary add-on ratio. The base *per diem* payment is the median calendar year 2000 nursing home rate for all nursing home rate categories, as determined by the Division of Health Care Finance and Policy (DHCFP). This base rate is \$124.47. The ancillary add-on is based on the ratio of ancillary charges to routine charges, calculated for Medicaid-only eligible patients on AD status, using MassHealth claims data for the period October 1, 1997 to September 30, 1998. This ratio is 0.3824. The resulting AD rate (base and ancillary) was then updated by inflation adjustments to derive the AD rate for RY2003.
- (3) The Division has established a comprehensive inpatient *per diem* rate for all participating substance abuse treatment hospitals covering both routine and ancillary services provided to inpatients. The Division derived the inpatient *per diem* rate by generating a base period rate for the period RY1997 through RY1999 (up to May 1999). The base period rate was inflation-adjusted to RY1999 dollars and then updated by the appropriate Medicaid acute inpatient update factors (SPAD inflation factors) to generate the RY2003 rate.

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III. Payment Methodology

A. Non-State-Owned Psychiatric Hospitals

(1) Determination of Inpatient *Per Diem* Rate

The Inpatient *Per Diem* Rate is an all-inclusive daily rate paid for any and all inpatient care and services provided by a non-State-Owned Psychiatric Hospital to a Medicaid Recipient, with the exception of any and all Administrative Days (see Section III.B.). The Inpatient *Per Diem* Rate covers room and board, routine nursing services, ancillary services, psychological testing, assessments, overhead, and other services, as is the customary practice among similar providers.

(a) Data Sources

- (i) **Base Period.** The RY1998 Inpatient *Per Diem* Rate was calculated using payments and Inpatient Days reported on Medicaid Psychiatric hospital claims data during the period RY1996 through RY1998 (up to May 1998). These are the same claims data that were used in the calculation of rates for RY1999. The base period was specified as Medicaid payments made during this same period, RY1996 through May 1998 Claims data and bed-days for Medicaid recipients enrolled in the Division's Behavioral Health Program are not included.
- (ii) **Update Factor.** The Base Period amounts are adjusted for inflation from the Base Period through RY2003 using a composite index called the SPAD inflation factor. This adjustment factor is calculated annually by the Division of Health Care Finance and Policy (DHCFP) and is based on a blend of the CMS PPS Hospital Market Basket and the Massachusetts Specific Consumer Price Index (MACPI). The SPAD inflation factors used to update the base period are 1.90% for RY1999, 1.43% for RY2000, 2.00% for RY2001, 1.152% for RY2002, and 2.226% for RY2003.

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- (iii) **Efficiency Standard.** Under the former Payment On Account (PAF) payment system, there were no incentives for efficiency since Medicaid paid a percentage of non-State-owned Psychiatric Hospital charges, and these charges were deregulated under state law. A 95 percent adjustment factor to the base statewide rate is used as an incentive for efficiency. This is the same efficiency adjustment factor that has been used by Medicare in setting payment for its managed care enrollees under the adjusted average per capita cost (AAPCC) payment system.
- (b) **Determination of RY2003 Inpatient *Per Diem* Rates.** The Division calculated the base period statewide rate by taking a weighted average of payments per day reported on claims data for all hospitals participating in the Medicaid Psychiatric Hospital program at any time during the period RY1996-05/1998. The weights were based on the proportion of bed-days each hospital provided under the Medicaid Psychiatric Hospital program during this same period. As an incentive for improved efficiency, the Division took 95 percent of the base period rate to yield the final proposed statewide *per diem* rate for RY1998. RY1998 figures were then updated for inflation using the SPAD inflation factors of 1.90% for RY1999, 1.43% for RY2000, 2.00% for RY2001, 1.152% for RY2002, and 2.226% for RY2003.

(2) **Determination of Rate for Administrative Day Patients**

A Non-State-owned Psychiatric Hospital will be paid for Administrative Days using an Administrative Day *Per Diem* Rate (AD Rate). The AD Rate is an all-inclusive daily rate paid for each Administrative Day. The AD Rate is based on the Medicaid acute inpatient hospital administrative day rate, and is comprised of a base *per diem* payment and ancillary add-on. The base *per diem* payment is the median calendar year 2000 nursing home rate for all nursing home rate categories, as determined by the Division of Health Care Finance and Policy (DHCFP). This base rate is \$124.47. The ancillary add-on is based on the ratio of ancillary charges to routine charges, calculated for Medicaid-only eligible patients on AD status, using MassHealth claims data for the period October 1, 1997 to September 30, 1998. This ratio is 0.3824. The resulting AD rate (base and ancillary) was then updated for inflation using the SPAD inflation factors 2.00% for RY2001, 1.152% for RY2002, and 2.226% for RY2003. The resulting AD rate for RY2003 is \$181.48.